SaskGaming

Second Quarter Report
2013

For the six months ended June 30, 2013

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CORPORATE OVERVIEW

The Saskatchewan Gaming Corporation (SaskGaming or the Corporation) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province of Saskatchewan. It currently operates Casino Regina and Casino Moose Jaw. Effective April 1, 2008, SaskGaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC). SaskGaming operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Saskatchewan Liquor and Gaming Authority (SLGA).

Casino Regina, located in Regina's historic Union Station, opened to the public on January 26, 1996 and is a full-service entertainment facility offering slot machines, table games, a Show Lounge, restaurant, and on-site parking.

Casino Moose Jaw opened September 6, 2002. It offers guests table games, slot machines, food and beverage services and parking facilities. Entertainment is offered to Moose Jaw customers through a partnership with the Mae Wilson Theatre.

SaskGaming's vision is as follows:

SaskGaming is the recognized leader in providing gaming entertainment in Saskatchewan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of SaskGaming for the six month period ended June 30, 2013. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2012.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods April 1 to June 30, 2013 and January 1 to June 30, 2013, with comparative figures for 2012.

	Three months ended June 30				Six months ended June 30			
(in 000s)	2013	2012	Change	%	2013	2012	Change	%
Revenue	$ 33,620	$ 34,830	$ (1,210)	(3.5%)	$ 64,414	$ 67,878	$ (3,464)	(5.1%)
Expenses	21,254	21,146	108	0.5%	41,548	41,748	(200)	(0.5%)
Income before payment to General Revenue Fund	12,366	13,684	(1,318)	(9.6%)	22,866	26,130	(3,264)	(12.5%)
Payment to GRF	6,183	6,842	(659)	(9.6%)	11,433	13,065	(1,632)	(12.5%)
Net Income	$ 6,183	$ 6,842	$ (659)	(9.6%)	$ 11,433	$ 13,065	$ (1,632)	(12.5%)

SaskGaming's net income for the second quarter of 2013 was $6.2 million, a decrease over the same period in 2012 of $0.7 million. Revenues decreased $1.2 million, and expenses increased $0.1 million.

Year to date net income was $11.4 million, a decrease of $1.6 million. Revenues decreased $3.5 million and expenses decreased $0.2 million.

1. Revenue
   Revenue for the second quarter was $33.6 million, a decrease of $1.2 million over the same period in 2012. Gaming revenues decreased $1.1 million and ancillary revenues decreased $0.1 million. The gaming revenue decrease is all due to a decline in slot revenues. Although guest counts at Casino Regina increased 1.5% year over year in the second quarter, Casino Moose Jaw guest counts decreased 7.1%, resulting in an overall decrease in guest counts of 0.4% in the second quarter year over year.

2. Expenses
   Total expenses for the second quarter were $21.2 million, an increase year over year of $0.1 million. SaskGaming continues to manage its expenses in response to the declining revenues which resulted in an operating expense increase of only $0.3 million. Increased expenditures related to promotions to draw guest visits, uniform replacement, and slot repairs account for the majority of the operating expense increase.

OUTLOOK

The Corporation's net income before payment to GRF target for 2013 is $52.8 million. At the end of the second quarter, net income before payment to GRF is below budget by $2.5 million. SaskGaming has not been experiencing the anticipated revenue growth in 2013 due to increasing competition for the gaming public's attention and a particularly slow start to the year attributed to adverse winter conditions throughout the first quarter. Adjustments have been made to expenditures wherever possible, however these cannot be adjusted downward to the extent required to offset the declining revenues without significant impacts to the business. Accordingly, SaskGaming is now forecasting a net income before payment to GRF of $50.6 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (in 000s)	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	$ 8,518	$ 10,583
Accounts receivable	307	397
Inventory	295	320
Prepaid expenses	1,937	666
	11,057	11,966
Property, plant and equipment	66,715	66,721
	$ 77,772	$ 78,687
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 9,525	$ 10,345
Payable to the General Revenue Fund	6,182	6,185
Dividend payable	4,848	5,455
Current portion of long-term debt	1,430	1,385
Current portion of finance lease obligation	955	955
	22,940	24,325
Long-term debt	9,996	10,722
Finance lease obligation	6,198	6,307
	39,134	41,354
Equity advance	4,000	4,000
Retained earnings	34,638	33,333
	38,638	37,333
	$ 77,772	$ 78,687

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and six months ended June 30
(Unaudited)

(in 000s)	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Revenue	$ 33,620	$ 34,830	$ 64,414	$ 67,878
Operating expenses	17,732	17,411	34,568	34,342
Depreciation	1,626	1,760	3,205	3,484
Taxes	826	879	1,628	1,724
Contractual obligations	754	754	1,508	1,508
Finance expense	316	342	639	690
Income before payment to the General Revenue Fund	12,366	13,684	22,866	26,130
Payment to the General Revenue Fund	6,183	6,842	11,433	13,065
Net income	6,183	6,842	11,433	13,065
Other comprehensive income	—	—	—	—
Comprehensive income	$ 6,183	$ 6,842	$ 11,433	$ 13,065

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended June 30
(Unaudited)

(in 000s)	June 30, 2013			June 30, 2012		
	Retained Earnings	Equity Advance	Total	Retained Earnings	Equity Advance	Total
Balance as at January 1	$ 33,333	$ 4,000	$ 37,333	$ 28,071	$ 12,805	$ 40,876
Comprehensive income	11,433	—	11,433	13,065	—	13,065
Dividends	(10,128)	—	(10,128)	(10,395)	—	(10,395)
Balance as at June 30	$ 34,638	$ 4,000	$ 38,638	$ 30,741	$ 12,805	$ 43,546

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended June 30
(Unaudited)

(in 000s)	2013	2012
Operating activities:		
Net income	$ 11,433	$ 13,065
Adjustments for:		
Finance expense	639	690
Depreciation	3,231	3,481
(Gain) loss on sale of property, plant and equipment	(26)	3
Changes in non-cash working capital balances:		
Accounts receivable	90	15
Inventory	25	1
Prepaid expenses	(1,271)	(262)
Trade and other payables	(820)	379
Payable to the General Revenue Fund	(3)	696
	13,298	18,068
Investing activities:		
Proceeds from sale of property, plant and equipment	84	—
Purchases of property, plant and equipment	(3,283)	(2,908)
	(3,199)	(2,908)
Financing activities:		
Dividends paid	(10,735)	(10,487)
Interest paid	(639)	(690)
Repayment of finance lease obligation	(109)	(72)
Repayment of long-term debt	(681)	(640)
	(12,164)	(11,889)
(Decrease) increase in cash	(2,065)	3,271
Cash, beginning of period	10,583	13,221
Cash, end of period	$ 8,518	$ 16,492

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013
(Unaudited)

1. Description of Business

The Saskatchewan Gaming Corporation (SaskGaming) is a corporation domiciled in Canada. The address of SaskGaming's registered office and principal place of business is 1880 Saskatchewan Drive, Regina, SK, S4P 0B2.

SaskGaming manages and operates Casino Regina and Casino Moose Jaw. SaskGaming was established under *The Saskatchewan Gaming Corporation Act, 1994* (Act) to provide for separation of regulatory and operational aspects of gaming. SaskGaming must operate in accordance with statutory provisions established under Section 207 of the *Criminal Code of Canada* and *The Alcohol and Gaming Regulation Act, 1997*. Regulation of SaskGaming's operations is controlled by the separately constituted Saskatchewan Liquor and Gaming Authority.

SaskGaming operates under the direction of its owner, the Crown Investments Corporation of Saskatchewan (CIC). CIC is the provincial government's holding corporation for its commercial Crown corporations. The financial results of SaskGaming are included in the consolidated financial statements of CIC.

2. Basis of Preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 29, 2013.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments which are classified as fair value through profit and loss, which are measured at fair value.

c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is SaskGaming's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: useful lives of property, plant and equipment and the customer loyalty program.

3. Significant Accounting Policies

The accounting policies applied by SaskGaming in these condensed consolidated interim financial statements are consistent with those applied by the SaskGaming in its December 31, 2012 annual financial statements, except as described in Note 4.

4. Application of Revised International Financial Reporting Standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2013, have been applied in preparing these condensed consolidated interim financial statements:

- IFRS 10 "Consolidations"
- IFRS 12 "Disclosure of Interests in Other Entities"
- IFRS 13 "Fair Value Measurement"
- Amendments to IAS 32 "Financial Instruments: Presentation" and
- Amendments to IFRS 7 "Financial Instruments: Disclosures"

The adoption of these standards had no material impact on the consolidated financial statements. The new disclosure requirements will be provided in the 2013 annual consolidated financial statements.

5. Fair Value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk and remaining maturities. Fair value measurements are subjective in nature, and represent point-in-time estimates which may not reflect fair value in the future.

The methods and assumptions used to develop fair value measurements have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level two includes inputs other than quoted prices included in Level one that are observable for the asset or liability. Level three includes inputs that are not based on observable market data.

The fair values of long term debt and finance lease obligation are estimated by discounting the expected future cash flows using the interest rate of a Government of Canada bond with similar terms, adjusted for an appropriate risk premium.

(in 000s)			June 30, 2013		December 31, 2012	
Financial Instruments	Classification [1]	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	OFL	Level Two	11,426	11,937	12,107	12,792
Finance Lease obligation	OFL	Level Two	7,153	8,532	7,262	9,003

[1] Classification:
OFL - Other financial liabilities